CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

November 2, 2000

H.R. 208

An act to amend title 5, United States Code, to allow for the contribution of certain rollover distributions to accounts in the Thrift Savings Plan, to eliminate certain waiting-period requirements for participating in the Thrift Savings Plan, and for other purposes

As cleared by the Congress on October 10, 2000 and signed by the President on October 27, 2000

SUMMARY

H.R. 208 (enacted as Public Law 106-361) will make a number of changes to the federal government's civilian retirement programs. The act will let newly hired federal employees make contributions to the Thrift Savings Plan (TSP) sooner than allowed under prior law and let federal employees transfer balances from other tax-deferred savings plans to their TSP accounts. The act will also authorize courts to prevent former federal employees from withdrawing their retirement contributions until divorce proceedings are finalized.

CBO estimates that H.R. 208 will decrease revenues by $108 million over the 2001-2010 period. That revenue loss will be partially offset by a reduction of $21 million in direct spending for refunds of retirement contributions.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of H.R. 208 on direct spending and revenues is shown in the following table. Only the estimated changes in the budget year and the succeeding four years are counted for pay-as-you-go purposes. This legislation will affect spending within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	-3	-2	-2	-2	-2	-2	-2	-2	-2	-2
Changes in receipts	-6	-9	-9	-10	-11	-11	-12	-13	-13	-14

BASIS OF ESTIMATE

The provisions governing refunds of retirement contributions while a divorce proceeding is underway would affect direct spending. The provisions dealing with contributions or transfers to the TSP would affect federal revenues.

Direct Spending

Restrict Payments of Refunds of Retirement Contributions. Federal employees covered by the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS) contribute a portion of their salaries to the Civil Service Retirement and Disability Fund. Individuals may have their retirement contributions refunded to them after leaving government service, but periods of service covered by refunds are not counted in calculating the amount of retirement benefits. (FERS employees also may not count refunded service in determining retirement eligibility.)

For this reason, in order to preserve a former spouse's entitlement to a portion of an employee's annuity or a survivor benefit, divorce settlements may prohibit a former employee from taking a refund. Under prior law, however, courts could only bar refund payments as part of a final divorce settlement. H.R. 208 will allow courts to bar payments of refunds while divorce proceedings are still in progress.

Based on information from the Office of Personnel Management, CBO estimates that about 27,000 former employees will receive refunds annually under current law. Using data on marriage and divorce rates from the National Center for Health Statistics, CBO anticipates that 600 of those employees will be going through divorce proceedings. CBO estimates that the bill will prevent 400 employees per year from receiving refunds, and will delay payment for another 100 employees by six months. Overall, CBO estimates that H.R. 208 will lower refund payments by $21 million over the 2001-2010 period. Annual savings will decline in later years because an increasing number of refunds will be paid to employees covered by FERS, which pays much smaller refunds than CSRS. (The average refund affected by this act will be about $6,700 in 2001, and will decline to about $4,300 in 2010.) In the long run, spending on federal retirement benefits will increase since more employees will be eligible for retirement benefits.

Revenues

Allow New Hires to Participate in TSP Sooner. Under prior law, newly hired federal employees had to wait two open seasons (6 to 12 months) before they could begin making contributions to the TSP. H.R. 208 will allow new hires to begin making TSP contributions immediately, although government contributions will still not begin until the second open season. The portion of an employee's salary that is contributed to the TSP is not taxed until it is withdrawn from the plan.

The Joint Committee on Taxation (JCT) estimates that the federal government will forgo tax revenues of $108 million over the 2001-2010 period as a result of this provision. Based on recent experience, JCT assumed that between 90,000 and 95,000 eligible employees will be hired each year, and that most of those new hires will participate in the TSP. Under the act, employees will contribute more money to their TSP accounts than under prior law, and thus taxes will be deferred on more of their income.

Allow Rollovers from Other Tax-Deferred Savings Plans. H.R. 208 will also allow employees to transfer funds from certain tax-deferred savings plans, such as a 401(k) plan from a previous job, to their TSP accounts. JCT estimates that this provision will not have a significant budgetary impact.

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